State of California
Energy Resources Conservation
and Development Commission

Implementation of Restructuring	)	Docket No.
Legislation (Chapter 854, Statutes	)	96-REN-1890
of 1996, AB 1890): Renewables	)	

Comments of

Natural Resources Defense Council
Environmental Defense Fund
Sierra Club

on the Staff Draft Policy Report on AB 1890 Renewables Funding

January 16, 1997

The Staff Draft Policy Report (Staff Draft) is a valuable attempt to meet the objectives of AB 1890 and the needs of the renewable energy industry. We believe that this proposal can serve as the basis for a final proposal. The following comments highlight the specific areas where we believe modifications or clarifications are needed.

1. The Staff Draft describes but does not incorporate a variable production incentive mechanism that could be applied to the existing technology account. (p. 21) We believe that this mechanism would be very useful in providing additional assurances to producers that a minimum level of support will be available while ensuring that the funds will be used as efficiently as possible. The variable production incentive could allow for a shift in the funding allocations whereby a higher maximum funding level was made available for existing projects, but substantially less funds – potentially less than 40% -- would be provided if energy payments linked to SRAC increase. As described below (point #2), we propose that the maximum allocation for existing technologies be raised to 45% in connection with incorporation of the variable production incentive mechanism. We recommend that the funds that become available at higher SRAC levels should be shifted into an allocation for new projects that is competitive across technologies and between consumer and producer incentives, such as was described in our 12/3/96 compromise proposal. A similar approach, possibly with a different SRAC target, could productively be applied to the repower account as well.

2. The Staff Draft offers a generous 20% allocation to emerging renewables and suggests that these funds will be available to a wide variety of technologies, including biomass,

wind, geothermal, and hydro. We expect that few, if any, of these technologies will qualify for these funds in light of the proposed definition of emerging technologies. The restrictive definition combined with the limitation on any single technology to no more than 60% of the funds suggests this allocation may be higher than necessary. We recommend that the proposal be clarified to eliminate those technologies that are unlikely to qualify, that the 60% restriction be eliminated so that the allocation is totally open and competitive across technologies that do qualify, and that the total allocation be reduced to 15%. We recommend that the additional 5% then be shifted to increase the maximum allocation to existing renewables, subject to the proposal described in Recommendation 1, above, whereby the allocation to existing resources would be reduced in response to higher SRAC levels. It is important to note that the 15% emerging technologies allocation we propose represents a minimum allocation, and that emerging technologies could compete for the additional funds made available through the variable production incentive if SRAC prices rise.

3. We believe that a voluntary Standard Offer contract buyout provision offers the opportunity to bring significant amounts of renewables into customer-oriented markets, at no net cost to utilities or to CTC. We support the Staff recommendation that such a provision be included in the final proposal and urge Staff to further elaborate on this proposal. (p.10) Our proposal (presented in our December 3, 1996 "Compromise Proposal" as feature no. 8) specifies that buyout funds would be provided as customer credits. There is no net cost, because these funds would otherwise be provided as contract payments covered by CTC. A critical concern in the formulation of such a proposal is the need to provide incentives for continued operation of facilities that accept the buyout option. Our proposal provides these incentives because the customer credits would be provided on a per-kilowatt-hour basis.

4. The Staff Draft mechanisms for distribution of renewables funds have no features that could properly be called “market-based.” The Staff Draft adopts the existing renewables distribution mechanism (where available funds in each class are divided by kilowatt-hour production by that class on a quarterly basis, and awarded on a per-kilowatt-hour basis) as the pattern for distribution of funds in each technology category. While this mechanism has certain merits for existing technology categories (and follows the industry proposal for these categories), this mechanism is inefficient, is too uncertain, and is counter to proposals of EDF, NRDC, and the Sierra Club for new technologies, is counter to proposals of industry representatives for wind repowering, is counter to proposals of industry representatives for photovoltaics, and is counter to proposals of representatives of marketers for customer incentives . The chief drawback of the Staff Draft proposed mechanism is that the per-kilowatt-hour level of support to new projects cannot be known in advance. When additional projects come on-line, or additional customers qualify for rebates, then the per-kilowatt-hour level of support to previously-built projects or previously-qualified

customers will decrease. The mechanism is also inefficient because it does not use competition to determine the level of support that projects require. Finally, the Staff Draft proposes arbitrary caps on per-kilowatt-hour support levels which may be set too low to allow development of renewable markets. The auction-based mechanisms proposed by EDF, NRDC, and the Sierra Club, as well as the wind industry, avoid these problems.

5. The Staff Draft fails to adequately address the need for efficient and timely administration of renewable funds. Time is too short to allow the many "case-by-case" reviews and adjustments that the Staff Draft envisions.